

# ARMS SALES FACING CONGRESS INQUIRY

## Role of Export-Import Bank in Financing Deals Stirs Concern in Both Houses

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WASHINGTON, July 22—Both the Senate and the House are now expected to delay action to extend the life and lending authority of the Export-Import Bank until a thorough review has been made of the bank's financing of arms sales to foreign nations.

Representative William B. Widnall of New Jersey, the ranking Republican on the House Banking and Currency Committee, noted today that in the last two fiscal years more than 39 per cent of the bank's loans had been for arms purchases. And these "arms credits," he said, "amounted to nearly \$1.5-billion, as compared to \$2.3-billion in credits for peaceful goods."

"Once again," Mr. Widnall said, "I call upon the Congress

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## Export Bank's your home. Come, swing through

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to undertake an independent evaluation of the entire question of arms sales and the means for financing such sales. Until such a review is completed, it would be most unwise for the Congress to extend the authority of the Export-Import Bank for an additional five years."

On the Senate side, the International Finance Subcommittee of the Banking and Currency Committee will begin closed hearings on Tuesday.

Attending the hearing as an invited guest will be Senator Allen J. Ellender of Louisiana, the third-ranking Democrat on the Appropriations Committee.

Mr. Ellender is one of the few Senators who have been aware of the steadily swelling credit account of the Pentagon's Office of International Logistics Negotiations, which arranges most credit sales of arms. Mr. Ellender is also aware of the growing role of the Export-Import Bank in extending direct arms loans to foreign countries and indirect loans through the Pentagon agency.

Two years ago Mr. Ellender sharply criticized Secretary of Defense Robert S. McNamara for telling the Senate Defense Appropriations Subcommittee that the Administration's arms sales abroad were "good" for American business. Mr. Ellender told the Secretary he should be ashamed to make such a statement.

### McNamara Insistent

In the hearings in 1966 Mr. Ellender again protested against the program of extending credits for arms sales. But Mr. McNamara stood his ground. He said:

"These sales are employing American labor and they are providing profits to American business. I think we should be encouraged and congratulated on making these arrangements."

Mr. Ellender said today that when he testifies on Tuesday he will propose two amendments to the bill that would extend the bank's life for 5 years beginning next July 1, and increase its lending authority from \$9-billion to \$13.5-billion.

First, Mr. Ellender will propose that the bank be prohibited from extending credits for arms purchases.

Second, he will propose the repeal of a provision in the Foreign Assistance Act of 1964 that permits the Defense Department to guarantee 100 per cent of the arms loans extended by private banks or the Export-Import Bank and allows it to obligate from its own revolving credit fund only 25 per cent of the loans as a reserve to back up its guarantee against default. The practical result of this provision is that the Pentagon has been able to use \$383-million, appropriated by Congress since 1957, for its revolving fund to extend \$1,532,000,000 in credits.

### Restored in Conference

In 1964, Mr. Ellender persuaded the Senate to strike this 25 per cent provision from the aid bill, but it was restored in the Senate-House conference at the insistence of the House conferees.

With many members aroused over the extent of the arms sales by the United States Government, and particularly by the role of the bank, Mr. Ellender believes his amendments have a chance of adoption despite the pressure that Secretary McNamara and State Department officials are bringing to bear on members of both banking and currency committees against any amendments restricting credits for arms sales.

Until two years ago, passage of the bank bill was regarded as a routine matter. This year, The House Banking and Currency Committee had already approved it. The Senate Banking and Currency Committee planned no hearings on it.

Then, largely through the initiative of Mr. Widnall, who became aware of the bank's role in the arms sales, the issue was reopened. Since then been parading up to the committee day after day to defend the arms credit role of the bank. Wright Patman, Democrat of Texas, chairman,

full committee, has held up dispatch of the bill to the Rules Committee pending a resolution of the issue.

### Many Groups Interested

As the publicity mounted, and with it the concern of many legislators, the Senate committee decided to hold hearings. But more than the two banking committees are involved. The Senate Foreign Relations Committee, the House Foreign Affairs Committee and the Armed Services and Appropriations Committees of both houses all feel they have a stake in the issue.

Mr. Widnall has the 13 other Republican members of the House Banking Committee firmly behind him. Several Democrats have as many doubts as he does. Chief of these is Henry S. Reuss of Wisconsin.

On Thursday, Mr. Reuss accused Administration officials of giving the committee "incomplete and misleading figures" the preceding Monday and trying "to hide the true nature of the Export-Import Bank's role in arms sales."

Several things underlie the growing concern in Congress over this role.

First, many legislators be-

lieve the Export-Import Bank is being diverted from its true function. The bank was established in 1934 to make loans at commercial interest rates to promote American exports to nations that might be unable to get private banking credit.

Thus, Mr. Reuss said, Congress should not "stand by idly" while the Defense Department tries "to convert the Export-Import Bank from a peaceful institution involved in trade into a prime source of credit for the arms race."

### Suspicious of Method

Second, many members believe the bank's new role was instituted through stealth, if not outright deception.

The Foreign Assistance Act of 1964 said the President could furnish such assistance by "guaranteeing, insuring, co-insuring and reinsuring any individual, corporation, partnership, or other association doing business with the United States against political and credit risks of nonpayment arising in connection with credit sales financed by such individual, corporation, partnership or other association for defense articles procured in the United

States by such friendly country."

Many members contend they were unaware that this language was intended to authorize the supplying of large-scale credits by the Export-Import Bank for arms sales. Members of the House Banking Committee were not mollified this week when Harold F. Linder, head of the bank, said he would have told them about the arms credits if they had asked him.

Concerned as they are about direct credits by the bank to foreign countries, many members are even more concerned about the so-called "Country-X" loans. Under this device the bank opens a line of credit with the Defense Department, and in turn, the Pentagon makes loans to underdeveloped countries, some of which could not qualify for direct loans from the bank. The bank does not ask, or want to know, the

nations receiving "Country-X" loans.

Senator J. W. Fulbright, chairman of the Foreign Relations committee that handled the foreign aid bill in 1964, said he was unaware until recently of the bank's arms credits. Mike Mansfield, of Montana, the Majority Leader, who is a member of the Foreign Relations Committee, said he had never heard of them.

Senator Wallace F. Bennett of Utah, ranking Republican on the Banking and Currency Committee, said today:

"I think it is reprehensible to use the Export-Import Bank for that purpose without Congress being informed about what is going on."

And Senator Walter F. Mondale, Democrat of Minnesota, another committee member, said:

"No one ever told us about it. We ought not to be peddling arms around the globe."